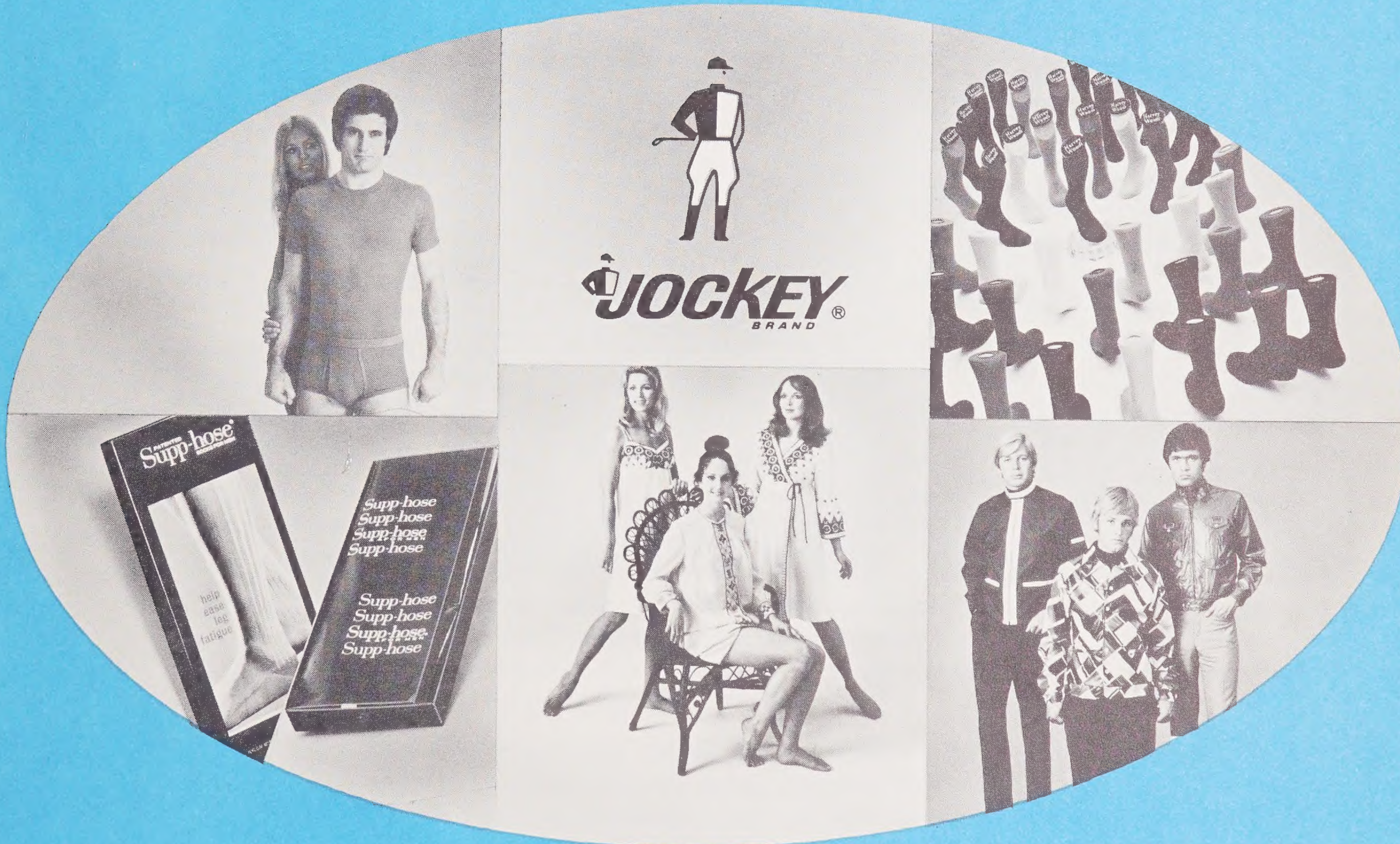
Harvey Woods

ANNUAL REPORT 1970



HARVEY WOODS LIMITED


43 GOOD REASONS WHY
WE CALLED THIS MEETING
The point that there are now 40 different colours available in our Harvey Woods Kroylon Cushion Sole Sock is just the start. The solid consumer acceptance to this successful range is the 41st reason. Reason 42 is the exclusive 100% Kroy Wool Cushion Sole and the comfort it provides and 43 is the added protection of Sterilseptic. Take another look at the 40 colours and have your Harvey Woods sales representative help fill out your variety of colours. You should realize the full profit potential of the Kroylon Cushion Sole Sock—for 43 reasons!
MADE IN CANADA BY
HARVEY WOODS LIMITED


La Dolce Vita
HARVEY WOODS LIMITED


LET'S GET WITH IT FOR SPRING!
CHECK THESE GREAT NEW JACKETS FROM...
These are just a few of the hot new Harvey Woods Jackets in a wide range of styles and colours for Spring.
MADE IN CANADA BY HARVEY WOODS LIMITED
Harvey Woods


THEY'RE BEAUTIFUL!
AND THEY'RE FLEXON, TOO!
That's right! Only Flexon offers the comfort, trim fit, colours and value your customers want. With 65% finest combed Cotton and 35% Stretch Nylon, with Steri-Septic protection and great new colours—the Harvey Woods Flexon line of Shorts, Shirts and T-Shirts—well, it's the big news for Spring. Make sure you have your stock well displayed when the National Advertising starts!
MADE IN CANADA BY HARVEY WOODS LIMITED
Harvey Woods

TO THE SHAREHOLDERS

Your Directors submit herewith the Annual Report of the Consolidated Operations of your Company and its Subsidiary Companies for the year ended December 31, 1970.

Earnings The Net Loss for the year of $549,000 compares with a Net Loss in 1969 of $217,000 after provision for depreciation of $193,000 in both years. In connection with income taxes payable, your attention is drawn to Note No. 4 to the Consolidated Financial Statements.

Working Capital Working Capital decreased $127,000 in the year and at December 31, 1970 stood at $2,408,000.

1970 Operations Your Company has subscribed to the principle that rationalization in the Canadian Knitting Industry in today's international economic climate is essential and it has been vigorously promoting this. In 1970 your Company was successful in its efforts to obtain the license to manufacture and distribute Jockey Brand Merchandise in Canada. At the same time, it purchased a substantial amount of knitting equipment from a large Canadian knitter in receivership. The benefit of these acquisitions will be to reduce factory unit costs, improve efficiency and produce a richer product mix in the two manufacturing divisions.

The time required to integrate these changes into your Company operations was longer than anticipated and large initial set-up costs of moving, re-arrangement of facilities, and staff training, were incurred. These extraordinary costs were absorbed in 1970 and along with lower production levels and unfavourable sales in a depressed retail market, resulted in the loss shown.

1971 Prospects These acquisitions will substantially improve sales volume and earnings in 1971. Sales for the first quarter of 1971 were more than 20% higher than for the same period a year ago and orders on the books are presently 25% higher. It is anticipated that this sales trend will continue. Although some training costs are being incurred in 1971, production is now approaching targeted levels to meet sales forecasts.

Long Term Debt The First Mortgage Redeemable Bonds become due June 1971. Your Company has arranged loans from its bankers and the Ontario Development Corporation and the details are shown in Note No. 2 to the Consolidated Financial Statements.

Subsidiaries The results of the Subsidiary Companies' operations were about the same in 1970 as they were in 1969. Export Sales to Europe increased. Two concurrent Government sponsored research projects are being conducted with a view to developing new products and improving existing products. It is expected that in 1971 export sales will be increased as markets are obtained in the U.S.A.

General The Canadian Textile Industry has suffered a number of reverses in the last few years. The Canadian Government, recognizing that the domestic industry is viable, introduced its Textile Policy to encourage, assist and develop existing operations by restructuring them. In 1970 your Company arranged a loan from its bankers through the General Adjustment Assistance Programme of the Federal Department of Industry, Trade and Commerce and the terms and conditions are shown in Note No. 1 attached to the Consolidated Financial Statements. Further rationalization and consolidation must and will take place. Your Company will participate whenever and wherever possible to maintain a strong position in the Knitting Industry.

Your Directors wish to record appreciation of the support and co-operation of all employees.

On behalf of the Board of Directors,

J. D. Woods,
President.

Toronto, Ontario,
May 17, 1971.

Harvey Woods Limited
(Incorporated under the laws of Ontario)
and subsidiary companies

Consolidated

December 31, 1970 (with compara

ASSETS

		in thousands of dollars 1970	1969
Current	Cash	$ 2	$ 4
	Accounts receivable less allowance for doubtful accounts of $35,000 at December 31, 1970 and 1969	2,181	1,971
	Inventories at the lower of cost and market value	3,939	3,696
	Prepaid expenses	111	115
	Total current assets	6,233	5,786
Fixed – at cost	Land	40	40
	Buildings	863	836
	Machinery, equipment, furniture and fixtures and cars and trucks	3,002	2,682
		3,905	3,558
	Less accumulated depreciation	2,639	2,470
		1,266	1,088
	Leasehold improvements at cost less accumulated amortization	32	35
	Total fixed assets	1,298	1,123
Total		$7,531	$6,909

On behalf of the Board J. D. Woods, Director • N. D. Cook, Director

(See accompanying notes to the consolidated financial statements)

alance Sheet

amounts at December 31, 1969)

LIABILITIES

		1970	1969
		in thousands of dollars	
Current	Due to bankers on demand loan (note 1)	$2,289	$2,056
	Accounts payable and accrued charges	1,031	948
	Sales and other taxes payable	195	170
	Portion of long term debt due within one year (note 1)	310	77
	Total current liabilities	3,825	3,251
Long Term	Due to bankers – term loan (note 1)	900	
	First mortgage redeemable bonds (note 2) – Authorized and issued, less redeemed:		
	Series A, 3¼% sinking fund bonds due 1971	624	699
	Series B, 4% sinking fund bonds due 1971	244	244
		1,768	943
	Less payments due within one year included with current liabilities	310	77
	Total long term liabilities	1,458	866
	Minority shareholders' interest	11	6
Shareholders' Equity	Capital (note 3) –		
Authorized	500,000 Class A shares of no par value entitled to a fixed cumulative preferential dividend of 40¢ per share per annum		
	700,000 Class B shares of no par value		
Issued and Fully Paid	329,512 Class A shares 700,000 Class B shares	1,938	1,938
	Retained earnings	299	848
		2,237	2,786
Total		$7,531	$6,909

AUDITORS' REPORT

To the Shareholders of Harvey Woods Limited

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1970 and the consolidated statements of income, retained earnings and working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada.
February 19, 1971.

Clarkson, Gordon & Co.
Chartered Accountants.

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1970 (with comparative amounts for 1969)

in thousands of dollars

		1970	1969
	Sales	$ 9,702	$9,746
Costs and expenses	Cost of sales – excluding depreciation and amortization	7,822	7,652
	Marketing, general administration and shipping expenses	2,188	2,058
	Depreciation and amortization	193	193
	Bond interest	30	33
		10,233	9,936
	Loss from operations	531	190
	Profit on purchase of first mortgage bonds for redemption	6	8
	Net loss before taxes on income and minority interest	525	182
	Income taxes (note 4)	16	30
	Net loss for the year before minority interest	541	212
	Minority interest in income of subsidiary company	8	5
	Net loss for the year	$ 549	$ 217
	Loss per Class "B" shares outstanding	$ .97	$ .50

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1970 (with comparative amounts for 1969)

	1970	1969
Balance, beginning of year	$ 848	$1,065
Net loss for the year	549	217
Balance, end of year	$ 299	$ 848

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Bank indebtedness

In 1970 the company with the assistance of General Adjustment Assistance Board made arrangements to borrow the sum of $900,000 to purchase equipment and inventory relating to its "Jockey Division". The moneys were loaned to the company by its bankers and the company as security for this and all other bank indebtedness gave to its bankers a demand debenture for $4,000,000 secured by fixed and floating charges. GAAB insured the bank as to repayment of 90% of the $900,000 loan. Interest on $615,000 of this indebtedness is at the bank's prime rate and interest on the balance is at 1¾% above the bank's prime rate. $285,000 is repayable by semi-annual principal payments of $28,500 during the period to July 1975; and of the balance of $615,000 the sum of $230,000 has been paid in 1971 and the remaining $385,000 is repayable by five monthly payments of $77,000 each to commence in May 1972.

The company's bankers also hold an assignment of accounts receivable and security on inventories under Section 88 of the Bank Act (Canada).

2. Refinancing of First Mortgage Bonds

The company has made arrangements through its bankers and Ontario Development Corporation to retire the $868,000 principal amount of its first mortgage bonds which mature on June 15, 1971. Such refinancing involves the issuance to the company's bankers of $346,000 principal amount of bonds, to be secured by a first mortgage on the company's lands, buildings, machinery and equipment and a first floating charge on its other assets. The said bonds which are to mature on July 15, 1981 will bear interest at 8½% per annum payable monthly and the loan will be repayable by monthly instalments of $2,900 each commencing August 15, 1971.

The $522,000 balance of the said first mortgage bonds which mature on June 15, 1971 are to be refinanced through a loan to be made to the company by Ontario Development Corporation which loan will be secured by a second mortgage on the company's lands, buildings, machinery and equipment and a second floating charge on its other assets. This loan will mature on July 15, 1981, will bear interest at 8½% and will be repayable by monthly blended payments of principal and interest of approximately $6,400 commencing August 15, 1971.

The security for the company's demand debentures referred to in note 1 above

CONSOLIDATED STATEMENT OF WORKING CAPITAL

For the year ended December 31, 1970 (with comparative amounts for 1969)

in thousands of dollars

		1970	1969
Source of working capital	Proceeds from term loan	$ 900	
	Sale of fixed assets	17	$ 18
	Increase in minority interest in subsidiary company	5	
		922	18
Application of working capital	Operations –		
	Net loss for year	549	217
	Depreciation and amortization	(193)	(193)
	Profit on redemption of first mortgage bonds	6	8
		362	32
	Increase in portion of long term debt due within one year	233	5
	Purchase of fixed assets	384	184
	Redemption of first mortgage bonds	69	97
	Sundry	1	2
	Decrease in minority interest in subsidiary company		2
		1,049	322
	Decrease in working capital	127	304
	Working capital, beginning of year	2,535	2,839
	Working capital, end of year	$ 2,408	$2,535

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

will rank subsequent to the security to be given in connection with the refinancing of the company's first mortgage bonds.

In view of the fact that arrangements have been made to refinance the first mortgage bonds maturing on June 15, 1971, the principal amount thereof has not been shown as a current liability, except for the amounts paid and to be paid under the new financing during the current year.

3. Dividends

Cumulative dividends on Class A shares of $6.20 per share ($2,043,000 in the aggregate) are in arrears.

The charter of the company restricts the payment of dividends on Class B shares if there are arrears of dividends on the Class A shares.

4. Income taxes

In 1970 income taxes are payable only in respect of the earnings of subsidiary companies.

At December 31, 1970 the balance of losses available for carry forward to reduce income taxes otherwise payable in future years is approximately $980,000 (assuming no capital cost allowance is claimed for tax purposes in 1970). This includes approximately $380,000 representing depreciation written in the accounts but not claimed for tax purposes for which there is no limitation on the carry forward period. The balance of approximately $600,000 is available for carry forward in varying amounts during the period 1971 to 1975.

The potential income tax recoveries applicable to such losses amounting to approximately $490,000 have not been reflected in the accompanying financial statements. The realization of these recoveries is dependent on the adequacy of profits within the carry forward period allowed for income tax purposes.

5. Remuneration of directors and senior officers

Aggregate direct remuneration paid by the companies during 1970 to directors and senior officers as defined by Section 1(25) of The Business Corporations Act, 1970 amounted to $129,000 (1969 – $130,000).

DIRECTORS	G. D. Birks N. D. Cook N. H. Cruickshank C. M. King R. W. L. Laidlaw J. W. Walker Q.C. W. P. Wilder J. D. Woods John A. Young
OFFICERS	J. D. Woods *President* N. D. Cook *Vice-President and General Manager* John A. Young *Vice-President and Secretary-Treasurer*

HEAD OFFICE	18 Vansittart Avenue, Woodstock, Ontario
EXECUTIVE OFFICE	70 Crawford Street, Toronto 3
TRANSFER AGENTS	The Royal Trust Company
AUDITORS	Clarkson, Gordon & Co.
BANKERS	The Toronto-Dominion Bank
COUNSEL	McCarthy & McCarthy
OPERATING LOCATIONS	Toronto: *Kroy Unshrinkable Wools Limited* *Thomson Research Associates Limited* Woodstock: *Hosiery Division, Underwear Division, Lingerie Division, and Jacket Division*
SALES OFFICES	Vancouver • Edmonton • Winnipeg • Toronto • Montreal • Quebec
PRODUCTS	Hosiery • Underwear • Lingerie • Sweaters • Jackets

Harvey Woods

JOCKEY® BRAND

HARVEY WOODS LIMITED